

## MEMORANDUM

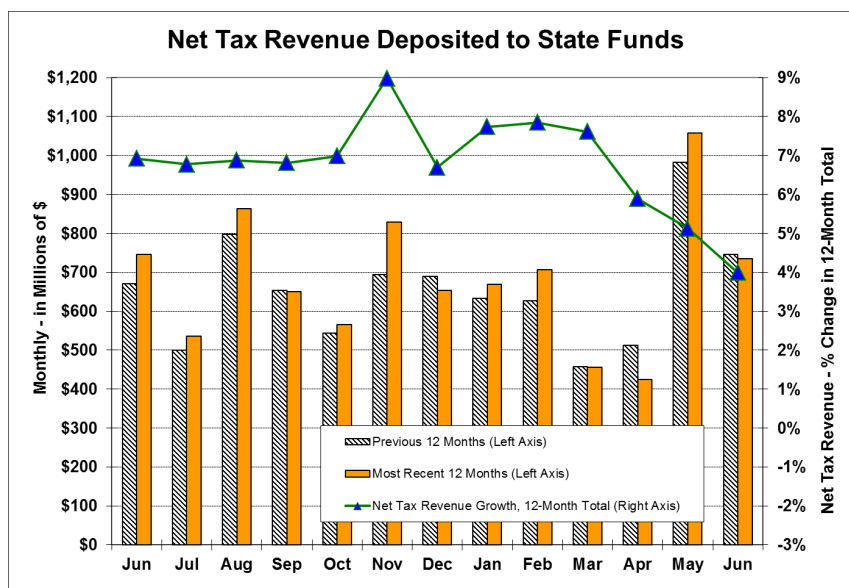
TO: Members of the Iowa Senate and  
Members of the Iowa House of Representatives

FROM: Jeff Robinson

DATE: July 15, 2016

### Twelve-Month Total Net Tax Receipts Through June 30, 2016

The attached spreadsheet presents net tax revenue deposited to state funds for the 12-month period ending June 2016 with comparisons to the previous 12 months. June 2015 to June 2016 one-month comparisons are also presented. The source of the information is the state accounting system, including non-General Fund accounts. All accounting transactions related to taxes remitted to the state were reviewed, along with the refunds issued against those taxes.



### Overview of Current Situation

Tax revenue growth for the month of June was negative, with nearly all tax sources declining. Two revenue sources that did increase for the month, gambling tax and sales/use tax, both benefited from one-time deposit issues that do not represent real revenue growth. The 12-month revenue rate of increase has dropped from 7.8% in February to 4.0% in June. Going forward, the rate of tax revenue growth may continue to slow as the one-year anniversary of the fuel tax increase has passed.

## Month of June 2016

June net tax receipts totaled \$734.3 million, a decrease of \$10.7 million (-1.4%) compared to June 2015. Individual and corporate income tax declined 2.8% and 10.2% respectively. A June decrease in fuel tax revenue, as well as increases in gambling tax and sales/use tax, were all the result of deposit timing differences between June 2015 and June 2016.

## Year-over-Year Comparison — Net Tax Revenue

During the 12-month period ending June 2016, net revenue from all taxes deposited to state funds totaled \$8.148 billion, an increase of \$312.4 million (4.0%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

- Individual Income Tax (positive \$82.8 million, 2.4%) – The processing of tax year 2015 income tax returns significantly lowered the annual individual income tax revenue growth rate. One year ago, annual individual income tax growth equaled \$252.6 million and 7.9%.
- Corporate Income Tax (negative \$70.4 million, -14.7%) – Monthly net corporate income tax revenue has been negative in four of the past six months.
- Sales/Use Tax (positive \$90.2 million, 3.5%) – Sales/use tax growth breakdown for the most recent 12 months:
  - Gross tax receipts from the sale of vehicles (deposited to the Road Use Tax Fund) increased \$16.8 million (4.7%).
  - Sales tax deposited to other state funds, mainly the Flood Mitigation Fund, increased \$10.7 million.
  - Sales/use tax deposited to the State General Fund increased \$57.6 million (2.1%).
  - Refunds of General Fund sales/use tax payments, including the payments to local school districts for school infrastructure, decreased \$5.1 million.
- Bank Tax (positive \$9.8 million, 26.5%) – Over the most recent 12 months, tax deposits increased \$5.2 million, while tax refunds decreased \$4.6 million.
- Fuel Tax (positive \$167.3 million, 33.5%) – According to Department of Revenue monthly fuel sales reports, over the most recent 12-month period, Iowa taxable gasoline/ethanol gallons sold increased 0.1%, and taxable diesel sales decreased 1.6%. The combination of gasoline and diesel taxable fuel gallons decreased 0.4% over the period. Due in large part to the Iowa gas tax increase (effective March 1, 2015), fuel tax net deposits increased 26.5% over the past 12 months.
- Gambling Tax (positive \$14.4 million, 4.9%) – According to Racing and Gaming Commission statistics, 10 Iowa casino/track locations recorded negative annual adjusted gross revenue (AGR) growth for the 12 months ending June 2016. The combined AGR change for the 19 facilities was positive 1.5% over the previous 12 months. Across all facilities, the AGR for the 12 months totaled \$1.437 billion, an amount that is 2.2% below the annual AGR peak (December 2012).
- Insurance Premium Tax (positive \$10.0 million, 9.1%) – Proceeds from the insurance premium tax increased significantly over the most recent 12 months. While the reason for the growth is not yet known, it is likely the result of decreased tax credit redemptions in recent months.
- Real Estate Transfer Tax (positive \$1.6 million, 8.4%)
- Cigarette and Tobacco Tax (positive \$4.0 million, 1.8%)

## Tax Spotlight – Sales and Use Tax

Sales of goods and services to the final user are taxed under the authority of Iowa Code [chapter 423](#). The sale of all tangible property to the final user is subject to tax unless the tangible property is specifically exempt in Iowa Code [section 423.3](#). The sale of services is exempt unless specifically enumerated in Iowa Code [section 423.1\(6\)](#). With a few exceptions, items that are exempt from sales tax are also exempt from use tax.

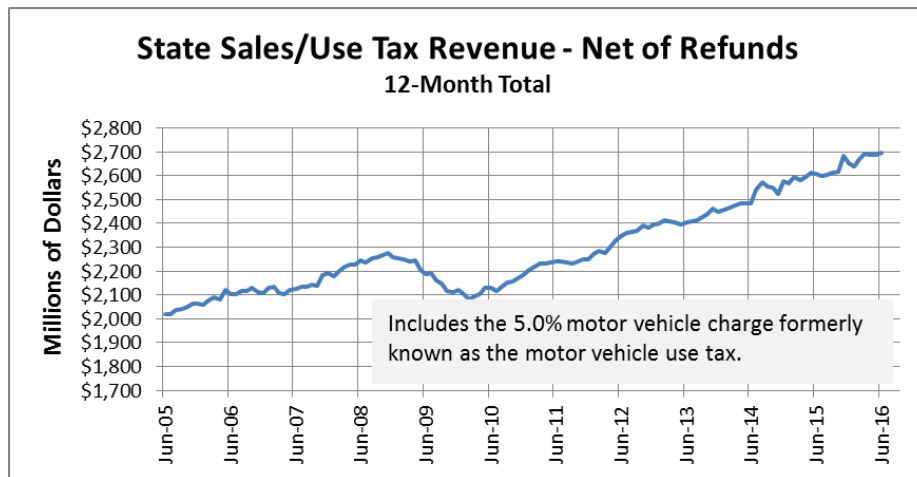
The state sales tax rate was increased to 6.0% with one-sixth of the tax devoted to school infrastructure in 2008. With the increase in the state sales tax rate, the school infrastructure local option (SILO) sales tax was repealed (this local option tax was initiated in HF 2282, Local Option Sales Tax for School Infrastructure Act of 1998). In addition to the state sales tax, with voter approval, local jurisdictions can impose a local option sales tax (LOST) of up to 1.0% (see HF 395, Local Option Sales Tax Act of 1985).

The use tax (consumer and retailer) rate was also increased to 6.0% in 2008, with one-sixth of the tax devoted to school infrastructure. The motor vehicle use tax (fee for new registration) remains at 5.0%. The use tax is not subject to LOST (except for transactions involving natural gas, natural gas services, electricity, or electric service). In general, the use tax includes:

- Tax collected by out-of-state firms making sales of tangible personal property or certain services purchased for use in Iowa (retailer's use tax).
- Tax on goods or services purchased tax free by consumers and subsequently used in Iowa (consumer's use tax).
- Tax (fee for new registration) collected by Iowa county treasurers or the Iowa Department of Transportation on the sale of vehicles subject to registration in Iowa.

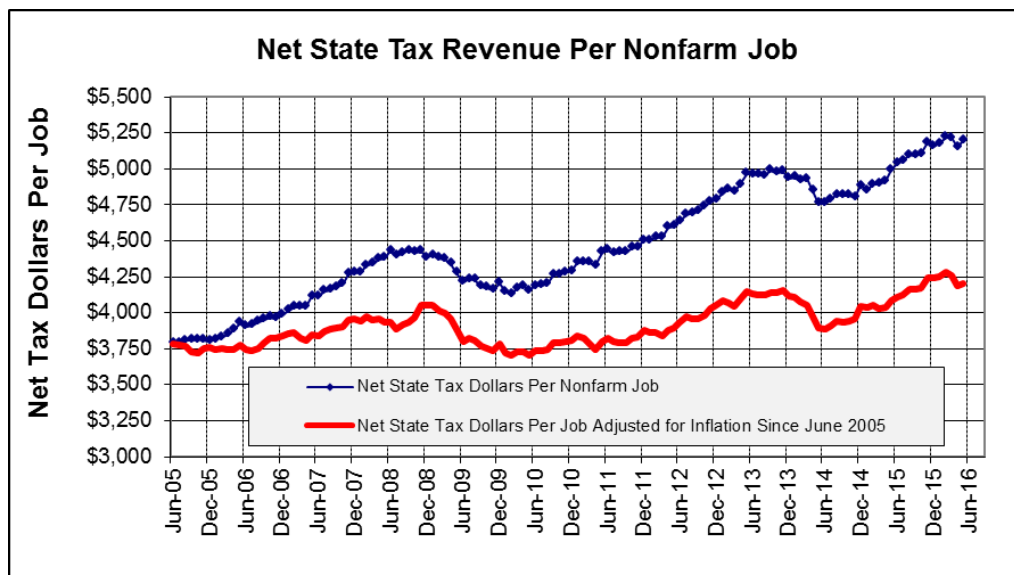
The Iowa sales tax was first imposed in 1934 in HF 1 (Net Income and Retail Sales Tax Act) for a three-year period at a rate of 2.0%. The tax was made permanent in 1937 with the passage of SF 316 (Sales Tax Act). The Iowa use tax was enacted in 1937 (SF 317, Use Tax Act) in conjunction with the permanent adoption of the sales tax at the 2.0% rate. The tax rates were increased to 2.5% in 1955, lowered to 2.0% in 1957, and increased to 3.0% in 1967 and 4.0% in 1983. The rate was changed to 5.0% in 1992. During the 2008 Legislative Session, the SILO sales tax was repealed and replaced with the 1.0 percentage point increase in the state sales/use tax in HF 2663 (State Sales/Use Tax for School Infrastructure Act of 2008).

Retailers selling tangible personal property or taxable services are responsible for collecting the state sales tax and any local option sales tax. The retailers are required to hold a retail permit and file a tax return. Depending on the amount of tax collected, deposits are due annually, quarterly, monthly, or semi-monthly. State sales tax is deposited in the State General Fund. State sales/use tax revenue for school infrastructure and LOST is initially deposited in the State General Fund and is transferred to special funds near the end of the month. Disbursements to local entities imposing the tax are made monthly from the special funds.



## Tax Revenue and Employment

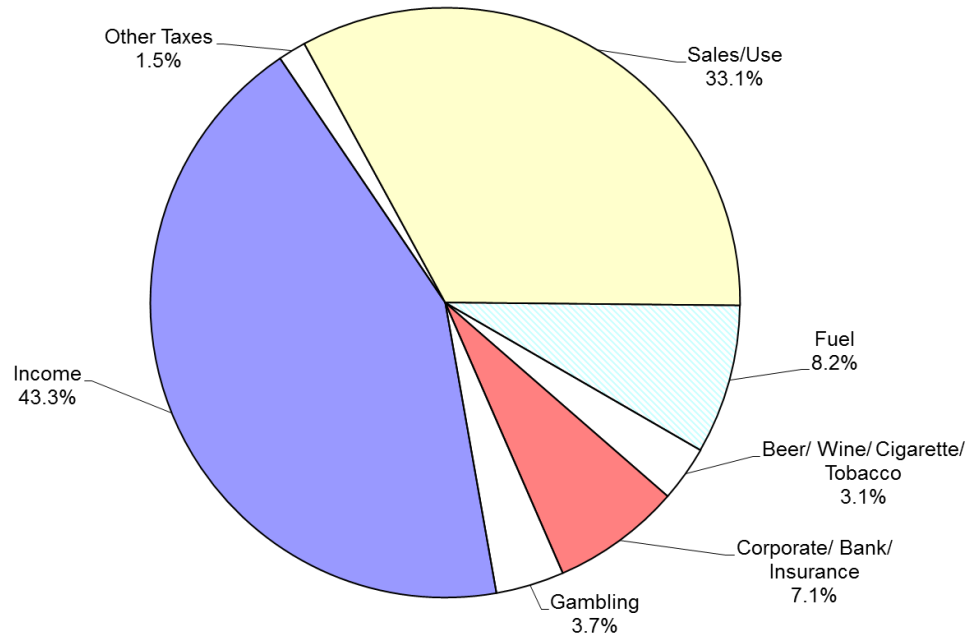
The average reading for Iowa nonfarm employment over the 12 months ending May 2016 is 1,570,500, and net state tax receipts over the same 12 months totaled \$8.158 billion, or \$5,195 per nonfarm job. This is \$1,410 higher than the per-job average for the 12 months ending June 2005. The blue line on the following chart depicts the annual tax revenue collected by the state per job, calculated monthly. The red line subtracts the impact of inflation since June 2005 from the blue line. The red line indicates that inflation-adjusted tax revenue per job has increased \$421 since June 2005, and the remainder of the \$1,410 increase (\$989) represents the impact of inflation.



## Net State Tax Revenue - Twelve Months Ending June 2016

**Net Revenue = \$8.148 Billion**

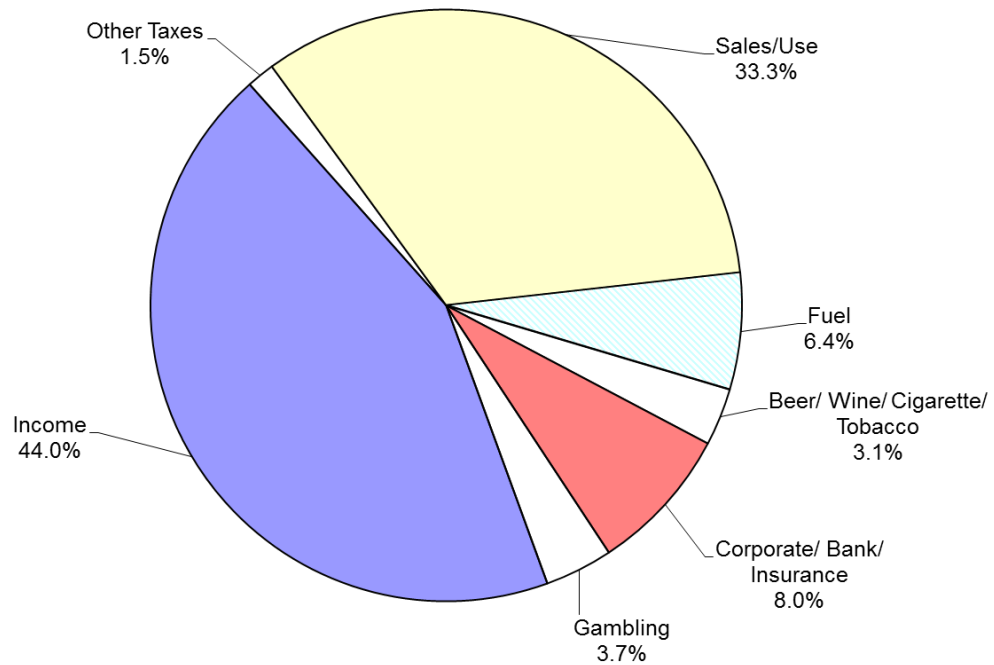
Percentages may not add to 100% due to rounding



## Net State Tax Revenue - Twelve Months Ending June 2015

**Net Revenue = \$7.835 Billion**

Percentages may not add to 100% due to rounding



## Net Tax Revenue Deposited to State Funds - Cash Basis

Dollars in millions - columns and rows may not add due to rounding

Net Tax by Tax Type	Previous 12-Month Period Total	Most Recent 12-Month Period Total	12-Month \$ Change	12-Month % Change	Month of June 2015	Month of June 2016	June \$ Change	June % Change
Banking	\$ 37.0	\$ 46.8	\$ 9.8	26.5%	\$ 8.4	\$ 10.1	\$ 1.7	20.2%
Beer & Wine	22.4	22.2	- 0.2	-0.9%	1.9	2.0	0.1	5.3%
Cigarette & Tobacco	223.2	227.2	4.0	1.8%	26.0	25.8	- 0.2	-0.8%
Corporate Income	480.4	410.0	- 70.4	-14.7%	98.7	88.6	- 10.1	-10.2%
Fuel	499.3	666.6	167.3	33.5%	67.6	58.9	- 8.7	-12.9%
Gambling	291.0	305.4	14.4	4.9%	23.2	29.4	6.2	26.7%
Individual Income	3,446.2	3,529.0	82.8	2.4%	296.1	287.9	- 8.2	-2.8%
Inheritance	85.0	89.2	4.2	4.9%	8.4	9.7	1.3	15.5%
Insurance	109.6	119.6	10.0	9.1%	30.7	29.5	- 1.2	-3.9%
Other Taxes	16.1	14.8	- 1.3	-8.1%	1.1	- 0.5	- 1.6	-145.5%
Real Estate Transfer	19.1	20.7	1.6	8.4%	1.7	1.9	0.2	11.8%
Sales/Use	2,606.0	2,696.2	90.2	3.5%	181.2	191.0	9.8	5.4%
<b>Total Net Taxes</b>	<b>\$ 7,835.3</b>	<b>\$ 8,147.7</b>	<b>\$ 312.4</b>	<b>4.0%</b>	<b>\$ 745.0</b>	<b>\$ 734.3</b>	<b>\$ - 10.7</b>	<b>-1.4%</b>
<b>Gross Tax &amp; Refunds</b>								
Gross Tax	\$ 9,286.0	\$ 9,690.0	\$ 404.0	4.4%	\$ 820.9	\$ 824.7	\$ 3.8	0.5%
Tax Refunds	\$ - 1,450.7	\$ - 1,542.3	\$ - 91.6	6.3%	\$ - 75.8	\$ - 90.3	\$ - 14.5	19.1%
<b>Net Tax Receipts by Fund</b>								
State General Fund (GF)	\$ 6,412.0	\$ 6,511.3	\$ 99.3	1.5%	\$ 590.9	\$ 599.8	\$ 8.9	1.5%
Road Use Tax Fund	\$ 860.2	\$ 1,041.2	\$ 181.0	21.0%	\$ 98.2	\$ 92.6	\$ - 5.6	-5.7%
Non-GF Gambling	\$ 289.4	\$ 303.7	\$ 14.3	4.9%	\$ 23.0	\$ 29.2	\$ 6.2	27.0%
Other State Funds	\$ 273.7	\$ 291.6	\$ 17.9	6.5%	\$ 33.0	\$ 12.8	\$ - 20.2	-61.2%
<b>Local Option Taxes *</b>	<b>\$ 933.5</b>	<b>\$ 955.1</b>	<b>\$ 21.6</b>	<b>2.3%</b>	<b>\$ 79.9</b>	<b>\$ 83.3</b>	<b>\$ 3.4</b>	<b>4.3%</b>

\* Sales, income surtax, hotel/motel, and flood mitigation. Distributed to local governments - not included in numbers above.

Numbers are rounded to the nearest \$0.1 million. Percentages are calculated after rounding.

A percentage change displayed as "---" represents instances where the base year net revenue amount was zero or negative so no meaningful percentage change can be calculated.

## **Tax Categories Used in Table**

**Franchise (Bank) Tax:** The franchise tax paid by banks is deposited in the State General Fund. Credit unions are taxed under a different system than banks, but the credit union tax is included in this line also. Of the total deposited, the bank tax provides approximately 98.0% of the revenue and the credit union tax 2.0%.

**Beer & Liquor Tax:** Taxes on beer, liquor, and wine are deposited in the State General Fund, the Liquor Control Fund, and a small amount is deposited in an Iowa Economic Development Authority Fund for wine promotion.

**Cigarette & Tobacco Tax:** Prior to July 1, 2011, all cigarette and tobacco product tax revenue was deposited in the State General Fund. For FY 2012 and FY 2013, the first \$106.0 million of revenue from cigarette and tobacco taxes has been deposited in the Health Care Trust Fund and the remainder is deposited in the State General Fund. Beginning in FY 2014, all cigarette and tobacco tax revenue is deposited in the Health Care Trust Fund.

**Corporate Income Tax:** All corporate income tax is deposited in the State General Fund.

**Motor Vehicle Fuel Tax:** All motor vehicle fuel tax is deposited in one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

**Gambling Tax:** Gambling tax is deposited in several state funds. Beginning with FY 2014, the state no longer deposits gambling tax revenue in the State General Fund. Funds receiving deposits of gambling tax revenue over the last 24 months include the Rebuild Iowa Infrastructure Fund, the County Endowment Fund, the Vision Iowa Fund, the Revenue Bond Debt and Subsidy Holdback funds, and the Iowa Skilled Worker and Job Creation Fund.

**Individual Income Tax:** Most individual income tax revenue is deposited in the State General Fund. A total of \$6.0 million per year (\$5.75 million in FY 2015) is deposited in the Workforce Development Fund. An annual \$2.6 million diversion to the Child Day Care Fund ended in FY 2009. In addition, several economic development programs are financed by individual income tax withholding. In those instances, the employer does not remit the tax withheld from employees and it is never deposited in a state fund. That revenue is not included here.

**Inheritance Tax:** All inheritance tax is deposited in the State General Fund.

**Insurance Premium Tax:** All insurance premium tax is deposited in the State General Fund.

**Other Taxes:** Other taxes include the brucellosis eradication property tax (deposited in a Department of Agriculture and Land Stewardship fund), drug stamp tax (State General Fund), utility replacement property tax (State General Fund), and car rental tax (Road Use Tax Fund). Other taxes also include a suspense account used to hold tax deposits prior to determining the correct tax type for the money and tax revenue transferred by the Department of Revenue to separate accounts to fund tax collection activities (tax gap and department operations).

**Real Estate Transfer Tax:** Real estate transfer tax is collected by counties. Counties retain 17.25% and remit the remainder to the state. The distribution of the state portion of real estate transfer tax revenue is currently changing each fiscal year, with the State General Fund portion reduced to 65.0% for FY 2015. The portion not deposited to the State General Fund is deposited to the Housing Trust Fund and the Shelter Assistance Fund.

**Sales/Use Tax:** General sales/use tax is deposited in the State General Fund, while most vehicle use tax is deposited in the Road Use Tax Fund. Beginning FY 2009, the vehicle use tax is referred to as a fee in the Iowa Code. To allow continuity of data, the revenue from the fee is reflected in this document as tax revenue. Also beginning FY 2009, the School Infrastructure Local Option (SILO) sales tax was converted to a statewide 1.0% sales/use tax, and the revenue from that statewide tax is transferred out of the State General Fund monthly through a refund appropriation. To allow for continuity of data, the refund transfers are subtracted from state revenue as part of the net sales/use tax calculation. Beginning FY 2014, a portion of state sales/use tax revenue is deposited in a new Sales Tax Increment Fund and used for local flood mitigation projects.

**Local Option Taxes:** Local option taxes are presented at the bottom of the table and are not included in the numbers above. Prior to FY 2009, local option taxes included the SILO tax, Local Option Sales Tax (LOST) for local government finance, Local Option Income Surcharge for schools, and hotel/motel tax. Beginning in FY 2009, the SILO tax was converted to a 1.0% statewide tax, and the SILO tax was eliminated. To allow for continuity of data, the transfers from the State General Fund as a result of the 1.0% statewide tax are included in the local option tax amount. Flood mitigation sales tax increment transfers to local governments were added beginning July, 2014.

**Report Database:** The database for this report is the state accounting system. If transactions are incorrectly coded in the system as tax revenue or tax refunds, the numbers presented here will be impacted.